

# Morningstar Balanced (50) Managed Account Portfolio

# Q22022

## Quarterly Performance Update

All data and information as at Portfolio Date: 30/06/2022

**Risk Level:** Medium  
**Inception:** 1 July 2012  
**Investment Horizon:** 5 Years

**Management Fee:** 0.55%  
**Indirect Cost Ratio:** 0.20%

### At a Glance

2022 has proven to be an increasingly challenging period for investors amid a backdrop of rising inflation, higher interest rates and ongoing geopolitical tensions. In recent weeks, inflation headwinds have worsened, with the latest U.S. inflation data fuelling concerns that we may be in for an inflationary period that is both more severe and of longer duration than previously anticipated. While this is important from an increased cost of living perspective, the knock-on implications on the outlook for interest rates have profoundly impacted both share and bond markets. Global shares, for example, are down around 18% (in aggregate and before adjusting for currency moves) calendar-year-to-date, while losses in key bond markets (which are just under 10%, over the same timeframe) are among the greatest falls seen in these asset classes in the past 80 years!

### What's the purpose of this portfolio?

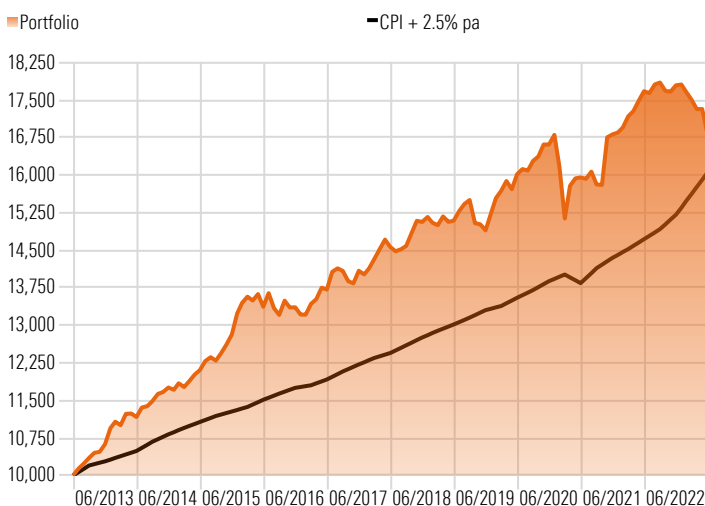
This is a portfolio of investments hand-picked by our team of professional investors. It targets around 50% growth assets like shares and property, and 50% defensive assets such as cash and bonds. We actively buy, hold or sell each investment depending on market conditions, with an aim to optimise your rewards, whilst preserving your savings over the targeted investment horizon.

### How the investment portfolio has performed

	10yr (% p.a)	7yr (% p.a)	5yr (% p.a)	3yr (% p.a)	1yr (%)	3mth (%)	1mth (%)	Incp (% p.a)
Portfolio*	5.34	3.34	2.93	1.66	-4.79	-3.86	-2.83	5.34
CPI + 2.50%^	4.84	4.86	5.22	5.81	9.03	2.72	0.90	4.84

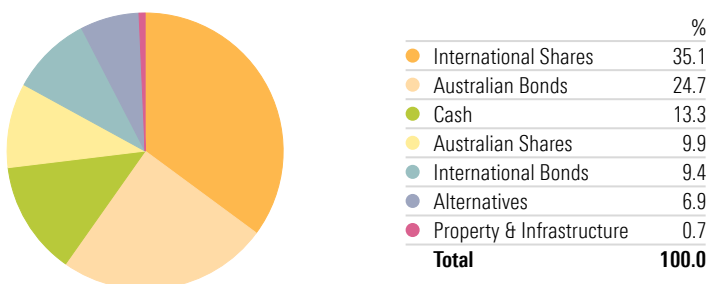
### Past performance is not a reliable indicator of future performance.

Returns over 12 months are annualised.



The portfolio aims to earn a rate of return that exceeds inflation by at least 2.5% per annum over rolling 5 year periods.

### Quarter-end Asset Allocation



\*Investment performance is before tax and the post-fee return is after the standard management fee of 0.55% and indirect cost ratio (both are inclusive of GST). Investment performance is shown from 01/07/2012 and represents modelled performance only and assumes income received is reinvested. An individual investor's performance will differ from the modelled performance depending on factors such as transaction timing, actual management fees, whether income is paid and any divergence from model portfolio weightings. The portfolio may include exchange traded funds which charge management fees and these are an additional cost (captured within the indirect cost ratio above) to individual investors and impact their return.

^The CPI was not available for the current quarter at the time of creation of this report. CPI for the same quarter of previous year has been used as a proxy for the current quarter. Please note the actual CPI for the current quarter may differ to the proxy used.

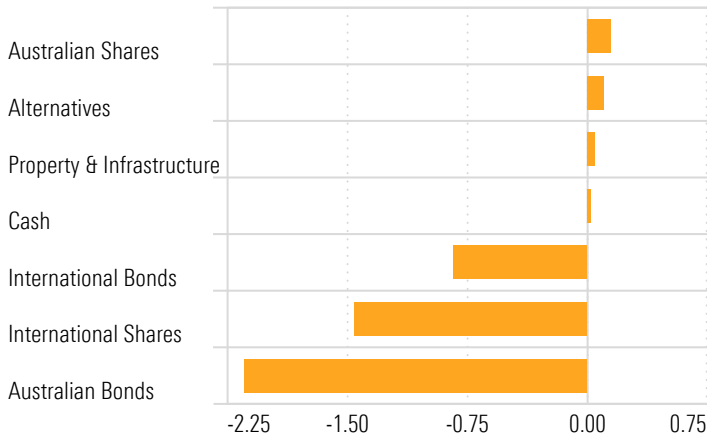
In this regard, the typical diversification relationship that we might expect (that would see bonds buffer sharemarket losses) has not held throughout much of 2022. Despite this, the portfolio has performed relatively well. In part, this reflects holding a lower weighting to U.S. shares (which have fallen by more than 20% so far in 2022, led lower by 'big tech' companies, including Apple, Google, Microsoft, Amazon & Meta), as well as, a much lower weighting to longer-dated bonds (which are more sensitive to rising interest rates). Interestingly, having experienced falls of this magnitude, these assets now represent much better value, and we have increased our weighting accordingly over the second quarter. In addition, some of the portfolio's more targeted positions, notably energy companies, have delivered exceptional returns, with the sector up almost 28% calendar-year-to-date, on the back of the surging oil price. Following this outperformance, we have moved to lock in some profits.

The risks (and fears) of a more dire economic scenario appear to have intensified, both globally and locally. Investors are concerned that to bring inflation back under control, Central Banks may need to aggressively raise interest rates, which risks tipping economies into a recession. Worse still is the potential for a return to a 1970s style 'stagflation' scenario, characterised by high inflation, high unemployment and no economic growth, which would understandably be a very difficult situation for the Reserve Bank of Australia (and the Australian government) to manage domestically. Granted, this specific inflation concern softened in the final days of the quarter, allowing shares and bonds to rally off their 2022 lows. Nonetheless, it highlights the challenge in the current environment, in that inflation and interest rates are notoriously difficult to predict, as are the actions of Central Banks. As such, while focusing on the worst potential outcome is natural, the reality may be very different. For this reason, the portfolio is constructed in such a way that it holds some assets that typically do well in an inflationary environment and others that we would expect to prosper should inflation expectations soften. With this in mind, while it remains an uncertain period, we continue to find opportunities to add attractively priced assets to the portfolio and believe that the portfolio is appropriately positioned to achieve its investment objective over time.



# Information about the portfolio's performance

## What drove portfolio performance over the past year?

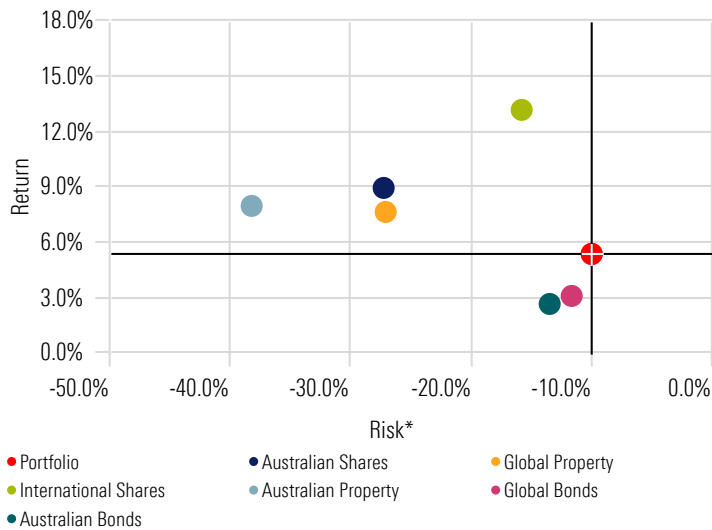


Actual outcomes may differ, as the chart has been prepared assuming a 'buy and hold' approach. Contribution to return from ETFs has been calculated using NAV returns.

This chart shows how the individual parts of the portfolio contributed to investment performance over the past year.

While it is important to understand how each asset class has contributed to overall performance, one year is a very short time in financial markets. Returns over such a short period are often heavily influenced by investor sentiment and are not necessarily indicative of longer-term outcomes. Morningstar encourages investors to consider this information in the context of achieving their longer-term goals.

## Risk versus reward since inception^



\*Risk is measured as the maximum loss from a peak to a trough for that investment during the period.

This chart shows how a number of investments have performed on average since 1 July 2012.

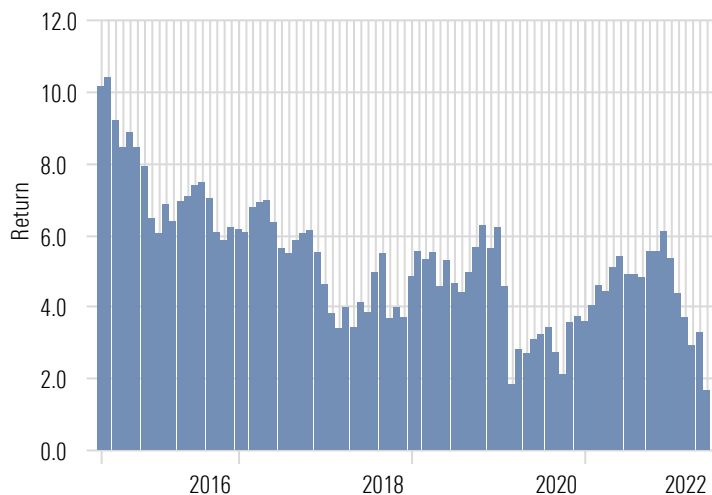
Returns alone are not the full picture. You cannot generate returns without taking on a level of risk. The chart shows the 'riskiness' of each investment relative to its average return.

You want to be as close to the top right corner of the chart as possible, as this indicates high returns achieved with less risk. You would expect cash to be towards the bottom right of the chart, with little to no risk and consequently, low returns.

It's important to note that past performance is not a reliable indicator of future performance and **riskiness of investments may far exceed what has occurred in the past.**

^Asset classes are represented by the following Morningstar Indices: Morningstar Australia NR AUD (Australian Shares), Morningstar AU Core BD GR Hdg AUD (Australian Bonds), Morningstar Gbl Mkts NR AUD (International Shares), Morningstar DM REIT NR Hdg AUD (Global Property), Morningstar Australia REIT NR AUD (Australian Property), Morningstar Gbl Core Bd GR Hdg AUD (Global Bonds)

## How stable has performance been? (Rolling 3 year returns)



Past performance is not a reliable indicator of future performance.

This chart shows the annual performance of the portfolio over rolling 3 year periods – e.g. your average annual return for each of the three years for any given month. In other words, this chart shows that the portfolio has delivered consistent positive returns over longer-term periods.

**Long-term investing helps you ride out the market's ups and downs.** It also lets you take advantage of opportunities that arise due to other investors making short-term, emotion-led investment decisions (e.g. irrationally selling investments at the first sign of fear and uncertainty).

# Information about what the portfolio is invested in

## How asset allocation is positioned vs the allowable ranges

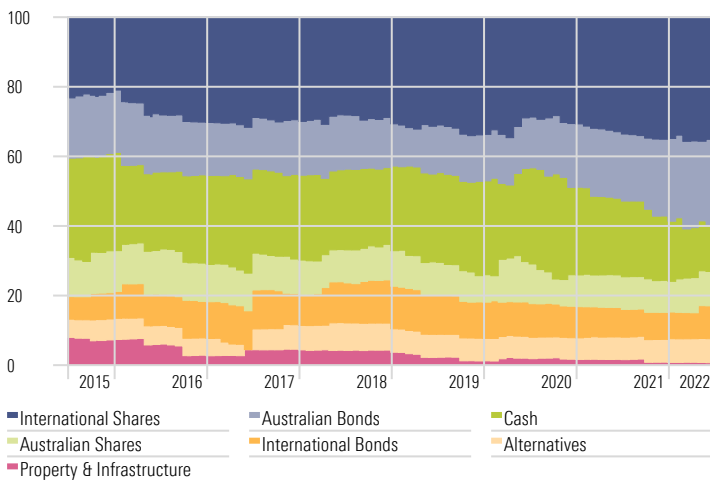


◆ Quarter-end asset allocation

The above chart shows the current breakdown of how the portfolio is invested.

A key difference in Morningstar's approach is that we use wide asset class ranges when constructing the portfolio. This means that we have the flexibility to invest in an asset class (e.g. shares, bonds and property) only if it makes sense to do so. If the reward isn't worth the risk, we can avoid the asset class and hold higher levels of cash, in wait for better opportunities to arise.

## How we navigated investment markets over time

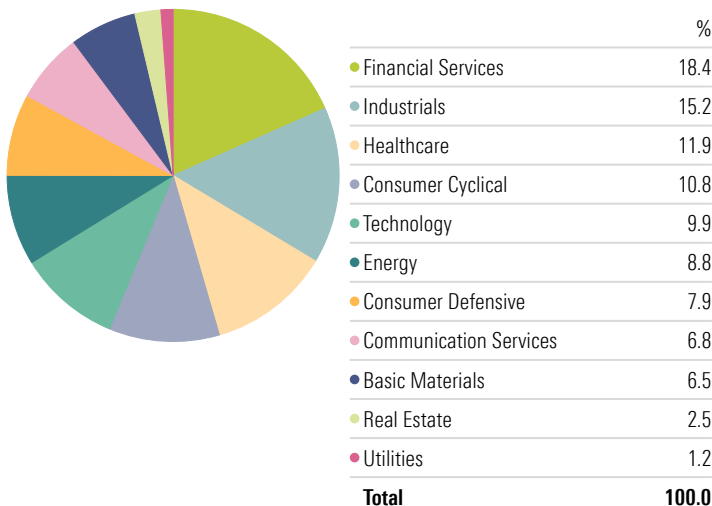


This chart shows how the portfolio positioning has changed over time in accordance with our valuation-driven asset allocation process.

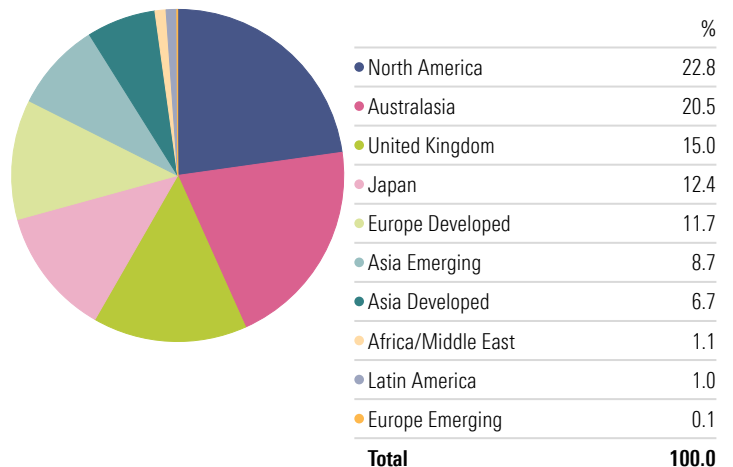
The portfolio has the flexibility to move towards opportunities that offer the best reward for risk (and away from those that we deem to be less attractive).

As you can see, Morningstar's valuation driven approach has seen the portfolio positioning change over time, as we take advantage of prevailing investment opportunities to position the portfolio for longer term returns.

## Equity Sector Exposure - Portfolio



## Equity Regional Exposure - Portfolio



## What you're invested in

Holding	Code	Asset Class	Morningstar Sector	Portfolio Weighting %
iShares Core Composite Bond ETF	IAF	Australian Bonds		17.346
Morningstar International Bonds (Zero Fee Class)	17381	International Bonds		9.432
Vanguard Australian Fixed Interest ETF	VAF	Australian Bonds		7.324
Morningstar International Shrs Actv ETF	MSTR	International Shares		6.969
Mstar Multi Asset Real Return (Zero Fee Class)	11736	Alternatives		6.896
iShares Core Cash ETF	BILL	Cash		6.778
Morningstar Int Shares (Zero Fee Class)	11743	International Shares		5.766
BetaShares FTSE 100 ETF	F100	International Shares		5.429
BetaShares High Int Cash	AAA	Cash		3.895
iShares MSCI Japan ETF (AU)	IJP	International Shares		3.302
iShares Core MSCI Wld Ex Aus ESG LdrsETF	IWLD	International Shares		2.912
Cash		Cash		2.629
iShares China Large-Cap ETF (AU)	IZZ	International Shares		2.153
Brambles Ltd	BXB	Australian Shares	Industrials	2.014
iShares MSCI South Korea ETF (AU)	IKO	International Shares		1.768
Vanguard FTSE Europe Shares ETF	VEQ	International Shares		1.573
Medibank Private Ltd	MPL	Australian Shares	Financial Services	1.479
Vanguard FTSE Emerging Markets Shrs ETF	VGE	International Shares		1.384
BetaShares Glb Energy Coms ETF	FUEL	International Shares		1.373
iShares Europe ETF (AU)	IEU	International Shares		1.359
Woodside Energy Group Ltd	WDS	Australian Shares	Energy	1.314
iShares MSCI Emerging Markets ETF (AU)	IEM	International Shares		1.117
Westpac Banking Corp	WBC	Australian Shares	Financial Services	1.064
CSL Ltd	CSL	Australian Shares	Healthcare	0.917
Insurance Australia Group Ltd	IAG	Australian Shares	Financial Services	0.904
Newcrest Mining Ltd	NCM	Australian Shares	Basic Materials	0.825
GPT Group	GPT	Property & Infrastructure	Real Estate	0.705
ResMed Inc DR	RMD	Australian Shares	Healthcare	0.689
Commonwealth Bank of Australia	CBA	Australian Shares	Financial Services	0.684

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